

Message Text

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67

ACTION EB-11

INFO OCT-01 ARA-16 EA-11 ISO-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 AGR-20 DRC-01 /168 W

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R 041735Z DEC 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 4253

INFO AMEMBASSY TOKYO

AMEMBASSY GUATEMALA

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY LA PAZ

AMEMBASSY MEXICO

LIMITED OFFICIAL USE SAN SALVADOR 4515

E.O. 11652 NA

TAGS: EAGR, ETRD

SUBJ: SALVADOR-JAPAN COTTON CONTRACT TALKS

REF: FASTO 47, TOKYO TOFAS 691

1. SUMMARY: JAPANESE BUYERS OF COTTON CAME TO EL SALVADOR PREPARED TO GIVE A LITTLE ON THE MATTER OF COTTON FUTURES PRICES, BUT HARDNOSED ATTITUDE OF COTTON COOPERATIVE NEGOTIATORS CAUSED THEM TO LEAVE WITHOUT AN AGREEMENT. MATTER IS STILL NOT RESOLVED, BUT THERE STILL REMAINS SOME HOPE FOR A NEGOTIATED SETTLEMENT.

2. IN MID-NOVEMBER A GROUP OF JAPANESE INVOLVED IN THE COTTON TRADE ARRIVED IN SAN SALVADOR TO DISCUSS THE DELICATE MATTER OF COTTON FUTURES CONTRACTS WITH THE COTTON COOPERATIVE (HEREAFTER REFERRED TO AS THE COOP), THE ONLY LEGAL SELLER OF LOCAL COTTON. THE

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JAPANESE WERE ACCOMPANIED BY DR. H. STROLZNOF THE INTERNATIONAL

FEDERATION OF COTTON AND ALLIED TEXTILE INDUSTRIES. HE IS SAID TO BE SWISS. THE VISITING GROUP MET WITH THE MINISTERS OF AGRICULTURE AND ECONOMY IN AN ATTEMPT TO BRING GOES PRESSURE TO BEAR ON THE CO-OP. BOTH MINISTERS REPORTEDLY ADVISED THE VISITORS THAT THIS WAS STRICTLY A PRIVATE MATTER THAT HAD TO BE WORKED OUT ON A PRIVATE BASIS. ONCE THAT WAS OUT OF THE WAY THE GROUP SETTLED DOWN FOR WHAT WAS SAID TO BE FOURTEEN DAYS OF NEGOTIATIONS.

3. AFTER SEVERAL DAYS THE JAPANESE PROPOSED AN ARRANGEMENT ALONG THE LINES OF THAT REPORTED IN MEXICO'S CABLE 8186, I.E., SHORT-WEIGHT BALES. A SHORTAGE OF 11.1 PERCENT WAS PROPOSED ON A STRICTLY CONFIDENTIAL BASIS, THE SECRECY WAS BECAUSE THE BUYERS WOULD APPARENTLY TREAT THE BALES AS IF THEY WERE FULL WEIGHT. THE CO-OP REJECTED THIS PROPOSAL BECAUSE THEY WERE NOT OFFERED THE SAME WEIGHT DISCOUNT THE MEXICANS GOT (SAID TO BE 17 PERCENT). THE JAPANESE THEN OFFERED TO TAKE 70 PERCENT OF THE COTTON AT THE CONTRACTED RICES AND LEAVE THE CO-OP FREE TO MARKET THE REMAINING 30 PERCENT AT GOING PRICES. THE CO-OP REJECTED THIS OFFER, TOO, FEELING THAT THEY SHOULD GET AN AVERAGE PRICE FOR ALL COTTON EXPORTED OF \$45 TO 46 PER QUINTAL. (NOTE: WE DO NOT KNOW WHAT PRICE WAS BEING USED FOR THE 30 PERCENT, BUT CURRENT SPOT PRICES YIELD AN AVERAGE PRICE FOR ALL COTTON SOLD OF NEAR \$44.) THE JAPANESE REJECTED AN ARRANGEMENT WHICH WOULD RAISE PRICES TO SUCH A LEVEL. THE CO-OP THEN SOFTENED A LITTLE AND ASKED ABOUT AN ARRANGEMENT SIMILAR TO THE ABOVE THAT WOULD PLACE PRICES AT THE \$43 TO \$45 LEVEL ON THE AVERAGE. THE JAPANESE HERE APPARENTLY WERE IN AGREEMENT WITH SOMETHING ALONG THESE LINES AND SAID THAT THEY COULD CONFIRM THEIR AGREEMENT BY A QUICK PHONE CALL TO OSAKA. THE REPLY FROM OSAKA WAS A STUNNING NEGATIVE ACCOMPANIED BY A STATEMENT TO THE EFFECT THAT IT WAS TAKE IT OR LEAVE IT ON THE SEVENTY-THIRTY PROPOSAL.

4. THE CO-OP NEGOTIATORS STOOD FIRM AND SAID THAT THEY WOULD GO THROUGH WITH THE LITIGATION. THEY FELT THAT THEY HAD TRIED TO NEGOTIATE IN GOOD FAITH BUT THAT ALL THEIR PROPOSALS HAD BEEN REJECTED. BESIDES, THEY ARGUED, IF THE JAPANESE WANTED TO BUY COTTON AT CURRENT SPOT PRICES THEY WOULD HAVE TO PAY A PRICE FAR ABOVE THE MODEST PRICE BEING ASKED BY THE CO-OP. IF THE CO-OP WISHED TO DO SO IT COULD SELL TO SPECULATORS NOW AT PRICES ABOUT \$10 QUINTAL BELOW THE SPOT PRICE AND STILL MAKE A VERY GOOD PROFIT. THEY DO NOT LIMITED OFFICIAL USE

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WISH TO DO SO BECAUSE OF THEIR OWN SERIOUS INTENTIONS AND A DESIRE TO MAINTAIN THEIR GOOD REPUTATION AS RELIABLE SUPPLIERS TO THE JAPANESE MARKET. THEY, THEREFORE, WILL GO ON WITH THE LEGAL REMEDY.

5. THE JAPANESE LEFT SAYING THAT ON THEIR RETURN TO JAPAN THEY WOULD MEET WITH THE TEXTILE INDUSTRY TO SEE WHAT ACTION COULD BE TAKEN TO RESOLVE THE MATTER. THE CO-OP IS TO BE ADVISED BY PHONE WHAT

ACTION IS DECIDED. THE CO-OP ANSWERED THESE DEPARTING REMARKS TO THE EFFECT THAT THIS WAS ALRIGHT WITH THEM AND THAT THE DOOR CONTINUED TO BE OPEN FOR FURTHER TALKS. IF SOME ARRANGEMENT COULD BE WORKED OUT, THE LEGAL PROCEEDINGS WOULD BE STOPPED IMMEDIATELY. AGAIN THE POINT WAS MADE THAT IF THE COURT RULED AGAINST THE CO-OP, IT WOULD DELIVER THE COTTON AT CONTRACTED PRICES--BUT IF THE CO-OP WON, NO COTTON WOULD BE DELIVERED UNDER THE CONTRACT.

6. THAT'S WHERE THE MATTER RESTS AT THIS POINT. THE CO-OP HAS NOT HEARD FROM THE JAPANESE BUT EXPECTS A CALL THIS WEEK OR NEXT. IF THEY GET NO RESPONSE BY DECEMBER 14 THEY WILL PROBABLY CALL THE JAPANESE FOR THE RESULTS OF THE MEETINGS THERE.
MOSKOWITZ

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